Origins of security and insecurity: the interplay of housing systems with jobs, household structures, finance, and social security.

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Security aspects of homeownership in Hungary

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Workpackage 1, deliverable No. 6

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1 Introduction

This study is connected to the previous study (Insecurity Aspect of Homeownership in Hungary; Workpackage 1, deliverable No. 5) which dealt with the risk element of the homeownership in Hungary. In that study we already tried to analyze the problems in a perspective of the transitional countries in terms of the changes of the East European Housing Model, specifically focusing on the new tenure structure in the region. That study summarized as well the institutional changes of the Hungarian economy after the transition with a special emphasis on the housing market and housing policy. In the present study, we are not going to repeat arguments developed in the previous study, and will focus our attention only on the security aspects of homeownership.

Thus in the ***first part*** of the study we will highlight the most important points which will relate to the security elements of homeownership. The ***second part*** of the study deals with the difficulties of the safety net in Hungary, which makes homeownership an important factor in the household "survival" strategy. The ***third part*** of the study analyses the relation between the equity and households in time and place. The last, ***fourth part*** of the study will analyze the constraints and possibilities in the ways homeownership could play a role in the safety net.

2 Homeownership in the perspective of the transitional countries

This study deals with the security element of the homeownership in Hungary. In the first study we argued that the housing system in the ex-socialist countries had had some common features which make a certain level of generalization possible. We concluded that one of the general elements was the change in the tenure structure**.** In spite of the differences in the tenure structure before the transition, after the transition two processes started 1. mass scale privatization 2. the "reinterpretation" of tenure started. The first element was quite transparent, and the process could be described and analysed; however, the second element was less obvious. Tenure rights in a wider sense (property rights, real estate registration, foreclosure law etc.) went through (and they still are) under a reinterpretation process, which has an enormous significance about the security elements of homeownership.

The second common element was the lack of "social housing", not merely in the sense of the public ownership, but in the operational sense, too, that is, housing for people who are facing huge affordability problems. The institutional solutions are under "construction", and we can talk about different attempts (e.g. the Polish TBS, or the municipal housing in other countries) which point into that direction. It is not easy to evaluate these programs from the point of view of political and financial sustainability. In Hungary, for example, the new rental housing program started in 2000 was stopped owing to financial reasons.

The third common element related to the risk and security of homeownership is the consequence of the hardship paying the increased housing related costs in a "constrained" macroeconomic environment. That is, a relatively wide share of the households is facing the problems of arrears, a huge social and political issue that has to be managed by the transitional countries. This is what we can call structural adjustment: households have to adjust their consumption according to their budget constraints, the increased burden has to be shared in multi-unit buildings among the tenants and owners, an efficient safety net has to be introduced to help households to manage hardship, the efficiency of the services has to be increased, and a new legal environment of the service sector has to be introduced (consumer protection, etc.).

The fourth common element was the introduction of the new housing finance system. In the 90s, independently of how successful the transition was in a political and macroeconomic sense, the housing sector in terms of the new construction and housing finance got into a deep crisis. Actually, the housing output decreased to 30-60 % of the 90s' level, and housing finance actually disappeared. At the beginning of the 2000s, the housing output has gradually started to increase, new, market oriented housing finance institutions have emerged, and housing finance has started to grow slowly (or in some countries, e.g. in Hungary, at a faster pace). This increase raises the problem of the risk, which in nature is not different from the problems in the more developed market societies, but because its close relation to other transitional problems we have to study it carefully in the context of other transitional problems.

Thus, homeownership has become a dominant tenure form all over the transitional countries, and even Russia and the Czech Republic have higher owner occupation rates than the European average. (See Figure 1)

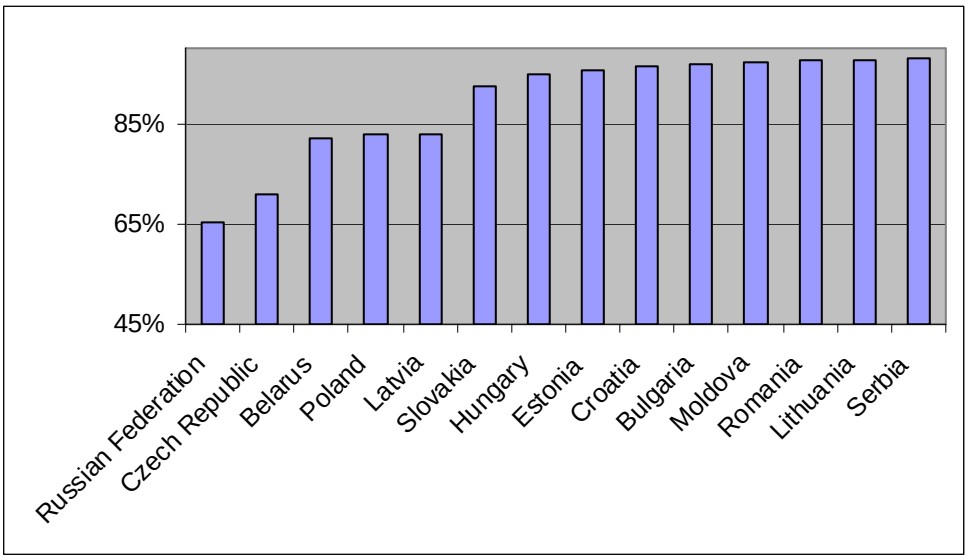

Figure 1 Share of the owner-occupied dwelling 2002

(Source:MRI)

Privatization made the property rights transparent. Firstly it put the burden of the operational and maintenance cost on the new owners, who were not prepared for it either from the financial, or the management point of view. This was the question we discussed in the previous study. Secondly, homeownership means an asset, a personal wealth which can be used as a form of savings, and it can play a role of "insurance" against unexpected future events. The rights and liabilities with the homeownership are in the process of change. Some argued that homeownership in the socialist period did not serve as a capital accumulation Marcuse (1996), which was partly true because of the explicit (through the law) and implicit (political expectation) restrictions. These restrictions were freed after the transition, and housing could play a role as a "capital good".

Because of the undeveloped housing finance system the housing assets are free of mortgage. That is the equity part is almost 100% of the value of the homes. There are proposals which tried to use equity solving the safety net issue. This problem will be discussed in the fourth chapter, but this issue is relevant all over in the transition countries.

> "The elderly in Russia have often been among those least able to cope with all the changes that have taken place during the transition. Unlike the situation prior to reform—when pensions were stable—they now face considerable uncertainty. If they have not been in poverty, many have been close to it. While the elderly have experienced difficulties, they have also been the beneficiaries of a very large transfer of wealth. In Russia, as in most transition economies, housing was privatized, under giveaway terms. As a result, although many elderly households have low incomes, based on their wealth, their deprivation would appear to be less serious. The existence of such large unencumbered wealth holdings by lower income elderly households creates an opportunity to provide what might be termed "housing safety net insurance" at low public cost." (Buckley, et al, 1995)

In the 90s the most successful transitional countries restructured and privatized their banking system, and tried to introduce a mortgage finance system. Despite the different institutional solutions, mortgage finance lending started at the beginning of 2000 as a consequence of the stabilization, low inflation and low interest rate. Typically the outstanding loans are at 1-3 % of the GDP, which shows that mortgage finance is in its early stage. Hungary – as we will show – introduced a very costly mortgage subsidy program and increased the outstanding mortgage substantially. However, there are signs of fast progress in mortgage finance even in countries where the mortgage subsidy is not extremely high, e.g. Poland and the Czech Republic.

3 Lack of efficient safety net: potential role of homeownership

Housing systems in transition countries derive from a housing model in which the housing allowance system had no role. The East European Housing Model (Hegedüs-Tosics, 1996) was built in the centrally planned economy that can be characterized as a social-economic system with high job security[1], low – highly subsidized – housing service prices, and small income differences. In this housing system, a vast majority of services were provided "in kind" or at an under-cost/market price allocated according to "merits" (Kornai, 2000). As a consequence of the low, subsidized housing prices an enormous shortage emerged leading to a dual housing market[2]. In the formal housing market, there was no need for housing assistance (because of the subsidized, low housing services), on the other hand, the informal market was not officially acknowledged, and thus, no income support was applied.

[1] To be unemployed was considered a "crime", which led to a high "inside unemployment" (meaning many jobs were kept in the firms with low salary and almost "no work").

[2] "Dual housing market" meant that beside the state controlled housing sector there was an informal part: self-help buildings, private transactions in the rental sector, private real estate market transactions, market for sub-tenancy, and a small private rental sector. (Hegedüs, 1992)

As a response to challenges created by the transition, the safety net has gone through a major transformation after the regime change. Welfare programs have two lines of operation: partly through the programs defined by the central government (parliament), and partly through local government managed (mixed financed) programs. The housing allowance system introduced in 1993 remained a "low budget" program, for reasons explained later in the paper.

Consequently, utility and rent arrears increased in the 90s. According to the household survey, in 1992 11.7 % of the households indicated that they had real problems paying the utility cost and rents, by 1997 their share increased to 15.4 %. (HHP, 1998). Housing surveys of 1999 and 2003 indicated that 6-7 % of the households had arrears (CSO, 2004); but other sources estimated a larger portion of households with arrears problem. Realizing the significance of the social problems related to arrears, from 1997 the government started launching programs to give incentives to local governments to manage the arrears issue. However, no substantial results were accomplished, and in 2003, a new housing allowance scheme was elaborated and an arrears management program was introduced.

Because of the give-away privatization, the public rental sector decreased from 20 % (1989) to 4 % (2003). However, because of the residualization, the households "trapped" in the public sector were typically the neediest ones. At the same time, local governments realized the necessity to increase rent to improve cost recovery in the rental sector. In order to make rent increase possible they started to introduce rent allowance programs. Recently the central government has made a proposal to introduce statewide rent allowance programs to help households to pay the rent for the private rental sector.

In Hungary, the housing allowance scheme was introduced in 1993 as part of the new Social Act (Kremer, et al, 2002). The local government had to introduce housing allowances for households whose housing expenditure was higher than 35 % of the household income[3]. The detailed conditions were to be defined by the local governments: the size of the allowance, the eligibility criteria for household income (maximum), and the housing consumption. Local governments enjoyed a wide autonomy in defining the beneficiaries' target group. The housing allowance program became quite modest in terms of budget expenditures, partly due to its financial structure: social tasks of local governments were (and still are) financed through two types of grants. One type is a formula based general-purpose grant, where the size of the grant for local governments is defined as a function of "need" indicators. The utilization of the grant is not earmarked, thus local governments – in principle – can spend this revenue also in other task areas. The other type of the grant is a beneficiary-based or earmarked matching grant where the central government finances a given percentage of the cost of the program. (Hegedüs, 2003)

Housing allowances were financed through the first type of the grant, while other benefit programs were financed through the second scheme. Local governments were generally more interested in giving assistance through programs where the central government's contribution was secured (like in the beneficiary and earmarked matching grant), and as it was they who administered the benefit programs, they had certain room for maneuvering. According to the Act, in the local decree they had to introduce the housing allowance program, but with the freedom to set the eligibility criteria they could limit its size to a large extent. This was the reason why housing allowance programs in the 90s remained very modest. The total cost of the housing allowances reached 1.5-1.6 % of the social benefit and family support program in 2000-2001.

[3] After January 1 of 1997 the housing cost to income ratio was defined 20 % in respect of the heating cost, and remained 35 % with the total cost. The reason was the aim to compensate the high district heating cost for low-income households. The cost items for the general housing costs included water charge, garbage fee, rent, mortgage payments, electricity etc.

Table 1 The structure of the social benefit programs, 2000-2002

	2000		2001		2002	
Type of allowance	**million HUF**	**as % of social benefits**	**million HUF**	**as % of social benefits**	**million HUF**	**as % of social benefits**
Income supplement	66 748	29.3%	71 206	30.2%	71 085	27.4%
Expenditure compensation and non-regular benefits	25 264	11.1%	27 196	11.5%	30 666	11.8%
–out of which: housing allowance	*3 551*	*1.6%*	*3 587*	*1.5%*	*3 762*	*1.5%*
Family benefit	132 500	58.1%	134 000	56.8%	153 900	59.3%
Altogether	**228 063**	100%	**235 989**	100%	**259 413**	100%
CPI (2000=100%)	100%		109%		105%	
Real value	228 063		257 673		273 180	

Source: Kőnig, 2004, CSO, 2003

Local governments are free to decide about the eligibility criteria; however, as a result of the "learning process" there are a lot of similarities in the conditions. (Hegedüs-Teller, 2004) Typically households with income under 150 % of the social minimum were eligible for the allowance. The households' housing consumption should be below the socially accepted minimum (defined by the central government). The size of the allowance was defined with very different methods: in very few local governments it worked based on a gap formula with minimum and maximum limits, in some cases as a residual or disposable income formula; but housing allowance schemes typically applied an ad hoc formula in which the size of the allowance did not depend on the household income.[4]

Since eligibility was also bound to floor space (room number) of the occupied dwellings, the authorities set the limits according to their own standards: some even differentiated according to the comfort level of the flats (flats with fewer utilities could be larger). In areas where single-family houses are in majority, the boundaries would be more generous.

The authorities had the right to classify the eligible housing costs (and details of calculation) in order to define the households' eligibility (ratio of housing cost to income – by law it was 35 %). Different techniques resulted in a diverging acknowledgement of housing costs: in some cases the physical amount of the consumption was limited, in some cases the cost of the consumption was set, or a defined ratio of the consumption was subject to the allowance.

The aspects that would have influenced the allowance's amount would be the following: ratio of housing expenses to income, level of households' income, household type, floor space of the flat, and type of heating. A variation of these aspects led to numerous models and the diversity of the allowance's sum, which was between 1,000 and 12,000 HUF (4 EURO to 48 EURO).[5]

[4] The referred 23 cases showed the following: in two cases the gap formula was applied, and one municipality operated the disposable income formula. The other twenty cases could be ordered in 10 groups , which shows that no "real" classification of the models could be undertaken. (Hegedüs-Teller, 2004)

[5] Taking into account that the average housing cost per month was app. 13,000 HUF per month on average in Hungary, in the selected towns the ratio of the allowance to the average housing cost ranged between 8 % and app. 90 %.

Table 2 Housing allowances 1995-2002

	Number of beneficiaries (households)	Housing allowances (in 1000 HUF)	Housing allowance per beneficiaries (HUF/month)	Housing allowance per beneficiaries (HUF/month) in constant HUF (1995)
1995.	234 727	2 331 706	828	828
1996.	236 559	3 004 129	1058	670
1997.	296 280	3 698 197	1040	723
1998.	268 721	3 881 190	1204	622
1999.	211 876	3 654 433	1437	655
2000.	197 032	3 550 882	1502	712
2001.	183 220	3 586 817	1631	681
2002.	175 055	3 762 148	1791	703

Source: CSO, 2003

Both the number of beneficiaries and the real value of the housing allowance per capita decreased, thus the total cost of the program shrank as well. According to 2002 data, poorer local governments tended to spend less on housing allowances. The average size of the benefit covered 8 % of the average housing expenditure.

4 Housing equity and its consequences

Though private ownership existed in the pre-transition period with legal limitations, it had not lost its feature of being a means of capital accumulation. In the 80s, a dual market existed in Hungary, where the distance between the public and private sector was increasing in terms of the prices. Housing as an equity started to play an important role in the 80s, where the house-prices increased much faster than the inflation. Between 1978 and 1983 the house-prices increased by 10-12 % yearly when inflation was around 5-6 % Hegedüs-Tosics, 1992, p 55). Between 1970 and 1985 the house-prices on the private market increased by 5 times, the incomes increased by around 2 times (Petching, 1986).

House prices are volatile, and it has an effect on the economic position of social classes/groups. After 1989 house prices decreased till 1998, and started to increase again in 1999-2001, which demonstrates house price volatility. (See Figure 2) The “real return” on housing (difference between the house prices and inflation) was not only negative between 1990 and 1998, but even lower than the return on bank (1 year) deposits.

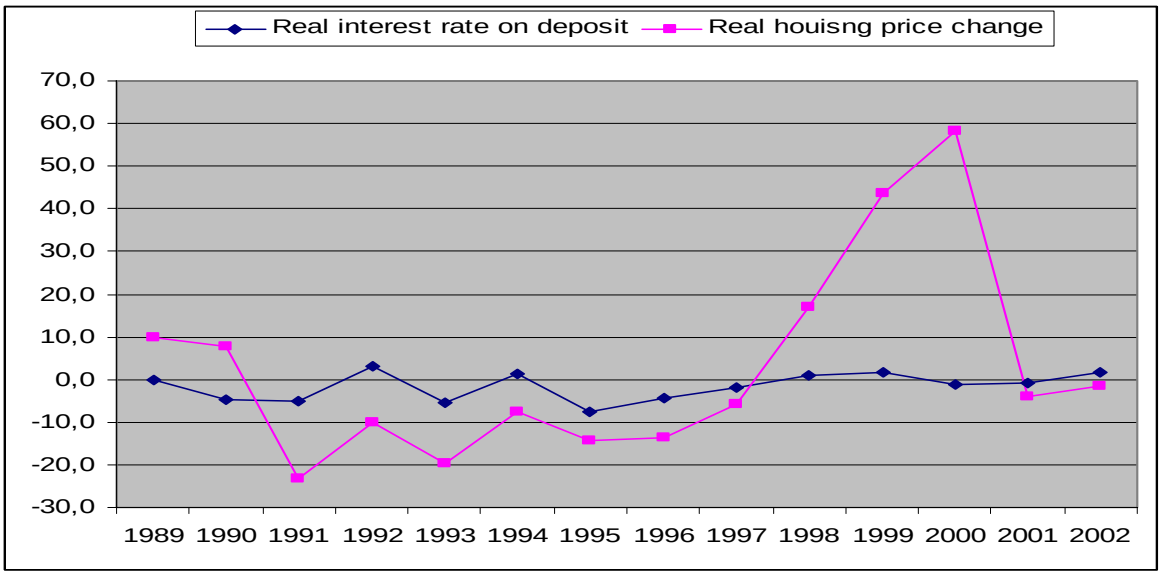

Figure 2 The real return on deposits and housing in Hungary, 1989-2001

(Sources, OTB, Bank, Hungarian National Bank, MRI own calculations)

The question, first of all, is what the long term tendencies of the house price movement are, and secondly, what kind of distance the price differences are creating among households in terms of regions, settlement type, income, occupation and education. The following sociological issues to be explored are how households perceive these trends and how they modify their strategy on the job and housing markets.

4.1 Regional house price differences

Regional differences in housing prices are a serious constraint on housing mobility. Affordability of housing is generally expressed by the price/income ratio. In western European countries, this ratio is between 2 and 3.5, whereas in Hungary it was 5 to 6 in the past decade. In general terms, the higher the P/I ratio is, the lower mobility is (Strassman, 2000).

The 1999 and 2003 housing surveys provide information on regional differences and trends of housing prices[6].

Clearly, over the past four years regional differences of housing prices have increased. Looking at housing by types of settlement, the difference between villages and the capital city agglomeration has grown from 2.5 to 3.7. By regions, the relative difference between the Central Region and the Northern Great Plain region has grown from 2.0 to 2.3. Increasing regional differences make mobility between geographical units (regions and types of settlements) harder within the private sector. An efficient rental housing sector (which would include a workable rent assistance scheme both for private rental and the communal sectors) could eliminate this obstacle to regional mobility.

[6] Values of housing are specified through regressive estimates in which parameters of homes (location, type of home, state of home, size and amenities etc) are used to explain the values attributed to the housing by respondents (the hedonic model). Variables included in the model proved to be relevant for more than 70 % of the variations of estimated housing values.

Table 3 Average housing prices in 1999 and 2003 by types of settlement and by regions (HUF million)

Type of settlement	1999	2003	2003/1999	Region	1999	2003	2003/1999
Budapest	5.15	13.35	259	Central Hungary	5.11	13.85	271
Bp. agglomeration	6.18	19.51	316	Central Transdanubia	3.82	8.98	235
City with county rights	3.91	9.93	254	West Transdanubia	4.85	10.59	219
City	3.19	7.43	233	South Transdanubia l	2.99	7.60	254
Rural agglomeration	5.18	11.89	230	Northern Hungary	2.48	6.04	244
Village	2.48	5.33	215	Northern Great Plain	2.49	6.10	245
Average	3.72	9.33	251	South Great Plain	2.83	6.04	213
				Average	3.72	9.33	251

Source: CSO 1999,2003 Housing Survey

Regional differences in housing prices are reflected in the different housing/income ratios, as regional differences of incomes tend to be much smaller than those of housing prices.

Table 4 The housing price/income ratio in 1999 and 2003 by types of settlement and regions

Type of settlement	1999	2003	2003/1999	Region	1999	2003	2003/1999
Budapest	7.4	8.2	111	Central Hungary	7.4	8.5	114
Bp. agglomeration	8.6	11.5	133	Central Transdanubia	5.7	6.2	109
City with county rights	6.0	6.9	115	West Transdanubia	7.3	7.4	101
City	5.3	5.8	108	South Transdanubia l	5.1	5.7	111
Rural agglomeration	7.4	8.5	115	Northern Hungary	4.2	4.8	117
Village	4.5	4.3	96	Northern Great Plain	4.4	4.9	113
Average	5.9	6.5	111	South Great Plain	5.2	5.1	99
				Average	5.9	6.5	111

Source: HCSO 1999,2003 Housing conditions

Regional differences in the housing price/income gap reinforce our earlier findings that the access to housing varies by regions. Acquiring housing is easier in villages and less developed regions, where employment and earning perspectives are limited.

According to the household expectations, the trend is continuing. Higher share of respondents with higher housing equity expects the house prices to increase than households with lower equity. (See Figure 3)

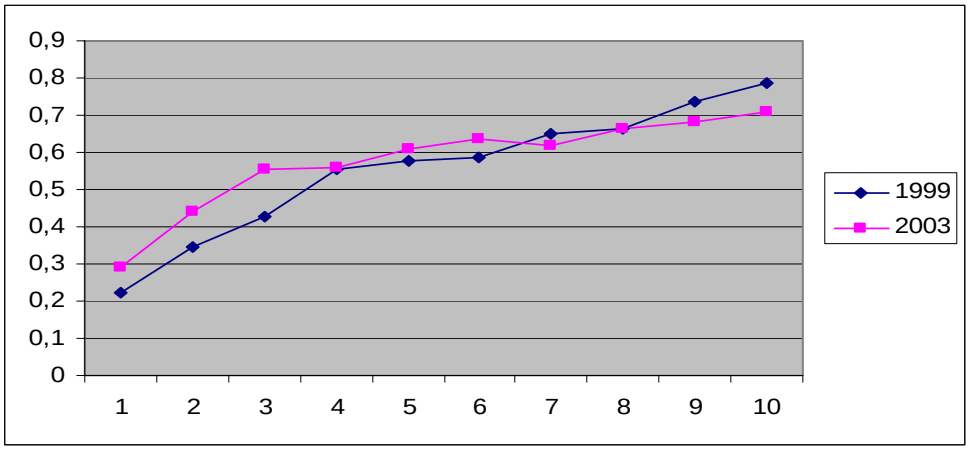

Figure 3 The share of respondents who thinks that the house price inflation will be larger than the consumer price increase according to the value of their unit

4.2 The allocation of the housing assets and the household income-price/income ratio

In the 80s, before the transition, house prices increased at a much higher pace than inflation. (Hegedüs-Tosics, 1992) According to our price index estimates, until the end of the 90s the real house prices decreased by 40 %, and there was a kind of price bubble at the turn of the century. In the early 1990s real housing prices fell, then started to soar again after 1999. (See Figure 4) Although no reliable time series data are available for housing prices, our estimates based on various sources confirm this trend. The price/income ratio grew from 5.9 to 6.5 between 1999 and 2003, which means that housing prices grew more than incomes. Nevertheless, affordability of housing improved with the greater „accessibility" of housing [7].

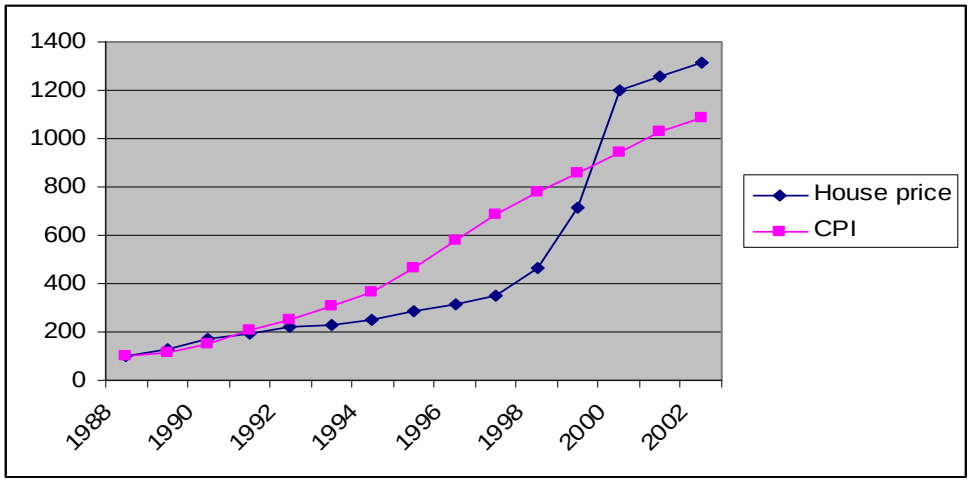

Figure 4 Average house price and consumer price index (1988-2002)

Source: MRI estimates

[7] The affordable housing price/average housing price ratio is the measurement of the price of housing affordable through borrowing as a percentage of average (average or median) housing prices. Another indicator of affordability is the ratio of affordable homes/homes for sale, which is a measurement of what percentage of homes for sale is affordable for average income households.

The gap between the lowest deciles (according to the value of the unit) and highest deciles is increasing.

Between 1999 and 2003 the relation between household income and house prices has not changed significantly. Among the homeowners, the correlation of household income and housing values was not very strong (Pearse correlation parameter 0.391 in 2003, and 0.376 in 1999). The share of households with low income (lowest 2 quintiles) and high housing value (highest 2 quintiles) was 9-11 % (in 2003) and 9-14% (in 1999).[8] In 2003 these households spent 35 % of their income on housing while the average housing expenditure household income ratio was 20%.[9]

The value of the housing unit changes only slightly with the age of the households; however the relation seems to be stronger in 2003 than in 1999.

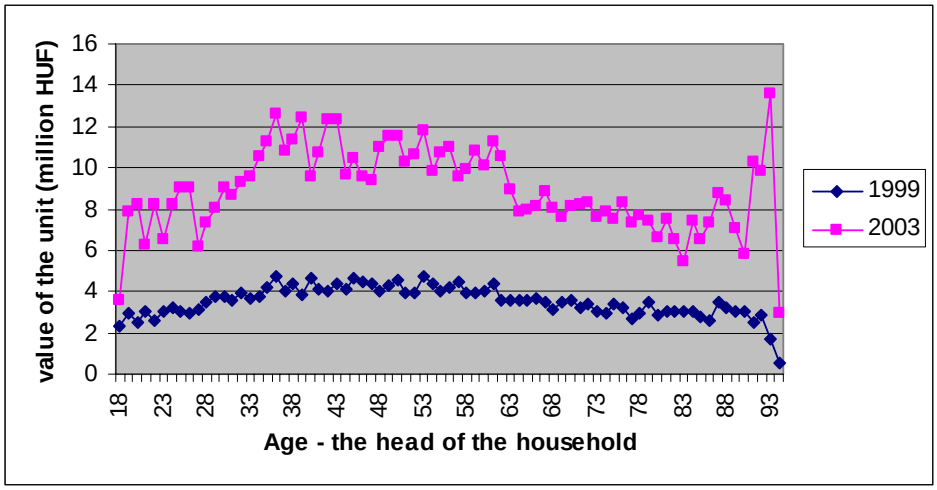

Figure 5 The value of the unit and the age of the head of the household

Source: Housing survey 1999, 2003

4.3 Equity and outstanding loans

The share of the equity is very high, because only 15 % of the homeowners have mortgage on their property. The macro data support the statement, as by 2001 the total outstanding mortgage loans had only been 4 % of the GDP. However, the share of the mortgage depends on the age of the households.

[8] We used household income (first index) and per capita income (second index).

[9] Székely (2003a;2003b) reached the same conclusions.

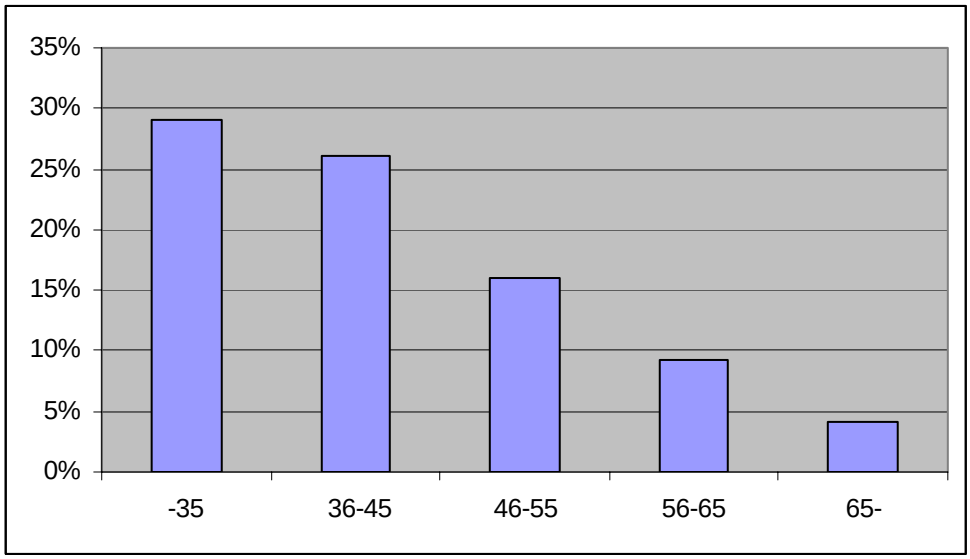

Figure 6 The share of units having mortgage according to the age of the head of the households

We do not have information on the average size of the mortgage, but mortgage payment is about 8 % of the household income on average. In the lowest income group it is 11 %, and in the highest income group this burden goes down to 7 % of the household income.

Table 5 Mortgage payment as a % of the household monthly income according to income quintiles (2003)

Income quintiles	Household income in thousand HUF	Mortgage payment in thousand HUF	Mortgage payment / household income
1	43,0	4,9	11%
2	80,9	7,1	9%
3	113,2	9,5	8%
4	154,3	13,1	9%
5	273,1	17,8	7%
Average	156,7	11,9	8%

5 Homeownership as a security

5.1 The problem of the „cash-poor and asset rich" households: possibility of reverse mortgage

We already showed that Hungary is one example of "super home ownership", where the majority of the owners have the full equity (no substantial mortgage). Meanwhile, a large share of households faces hardships in paying their housing costs, and – as we showed – there is no efficient safety net program for this group. Especially, the older generations have problems, because of the not very generous pension system and the limited possibility in the job market (nevertheless, they belong to the group who would rather control other consumption than housing). In the Housing Survey of 2003, 42 % of elderly households[10] did not heat the whole apartment because of the hardship of the housing costs. (See Figure 7 and Figure 8)

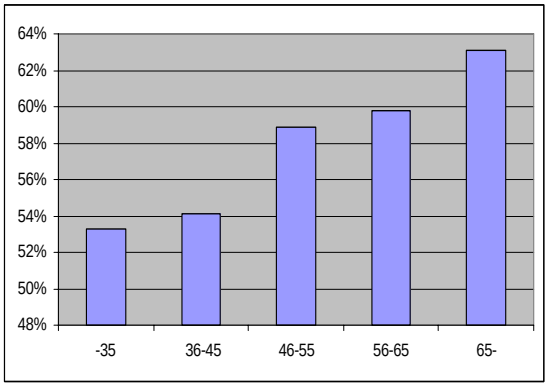

Figure 7 Housing costs put a big burden on the household budget according to the age of the household head

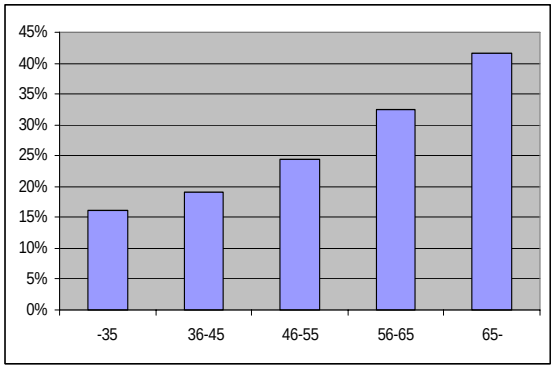

Figure 8 We do not heat a part of the house/apartment to save - according to the age of the head of household

Reverse mortgage seemed to be a solution to ease the hardship of elderly households. The elderly constitute a growing segment of the society. In Hungary, as we have seen, the elderly have a high homeownership rate and hold substantial house equity, not less, not more than the average households. The elderly prefer remaining in their homes and keeping their independent living as long as possible. Thus, the usual way for releasing equity from their home (by selling their homes and move to a less valuable one) is not an attractive option. Reverse mortgage offers an option allowing elderly homeowners to use up their home equity and age in place. The reverse mortgage is a relatively new instrument known from the US, where the retired homeowner lives off the savings on his mortgage. More and more innovative financial institutions are beginning to provide this type of financial instrument.

[10] Head of household older than 65 years.

The "Life Annuity for Apartment" was a well-known scheme for young households to have access to housing before the transition, especially in the rental sector[11]. In modern housing finance, reverse mortgage is an annuity that a financial institution offers to the loanee against his/her apartment as mortgage, which can be realised after the loanee's death and only then. In return, the loanee hands over the inheritance rights of the apartment to the financial institution.

The market for the reverse mortgage will be created partly because people will begin to realise that they do not possess large enough amount of money compared to their usual cash turnover and their income and savings possibilities; partly because they will want to settle the inheritance expectations of their offspring in their old age so that they can live freely before their death. The reverse mortgage market frees parents from the family's inheritance expectations and creates a financially stable situation in old age.

There are two well-defined groups in Hungary which try to obtain old people's apartments as a business endeavor: doctors and lawyers. Unfortunately, the lack of proper legal procedures may give rise to disabuse. It is difficult to estimate the value of the current or future annuity in relation to the current or future value of the apartment. It can also be subject to many changes in the future. Those who wish to receive the annuity often overestimate the value of their apartment and after several attempts they are forced to sell it below market price. Some doctors or lawyers calculating the age expectancy are trying to make an unreasonable profit.[12] In 1996 politicians in the Hungarian Parliament raised the question of supporting old poor people against the mortgage on the house/flat they own.[13]

There are four alternatives for providing safety for old people poor in cash and rich in asset:

- Pension homes with high level of services
- Private contracts between an old person and someone else who undertakes to provide care for the old person until the end of his/her life. In return for the care provided, the person will inherit the ownership or the tenancy right. This was quite common in the socialist period, but not current practice any more these days.
- Local governments' attempts to provide a reverse mortgage scheme. In two Budapest districts a program was launched.
- Private companies

In Budapest, for example, one district local government started a program to connect the families on the waiting list for an apartment with the old people who were willing to pass on the ownership to them. Because of the small number of the participants, there was no anonymity so this solution became fairly similar to the private contracts.

[11] Private contracts between an old person and someone else who undertakes to provide care for the old person until the end of his/her life. In return for the care provided, the person will inherit the ownership or the tenancy right. This was quite common in the socialist period.

[12] On the other hand, one can often see advertisements to sell such annuity contracts since the old person is doing well, i.e. s/he is not ready to die yet…

[13] It was a socialist politician who raised this question first and the opposition joined him and tried to use this issue to gain popularity. The original rough idea was to give one-two billion Fts to the insurance companies who were supposed to provide life annuity. They estimated that 53,000 old people from Budapest and 76,000 from the provinces could be involved in this program. On average, a 70-year-old person could receive 8,000 to 25,000 Fts annuity for a flat with a value of 2-4 million Fts. These were very rough estimations based on no research.

In the 13th district the program tried to connect the families on the waiting list for an apartment with the old people who were willing to pass on the ownership to them. Because of the small number of the participants, there was no anonymity, so this solution became fairly similar to the one in #2. The local government guaranteed the annuity supporting the people on the waiting list. The eligibility included only the new owners of privatised units. The conditions are the following:

- the owner should be above the age of 62
- no other person can live in the apartment
- the apartment should have a bathroom and be minimum 30 square meters large

Annuity depends on the market value of the unit, the age and sex of the owner. The annuity is indexed to inflation and the total discounted value of the annuity is 5 % less of the value of the unit. The insurance on the house and the maintenance cost are deducted from the annuity.

There is another company in the Hungarian market which deals professionally with providing annuity for an apartment based on a pre-defined methodology. The company offers to appraise the client's apartment (minimum age of the client is 65), and will calculate the annuity in several options based on the person's age, sex and the life expectancy data provided by the Hungarian Central Statistics Office. In the predicted term (life) of the annuity, the total of the value and costs of the annuity should conform to the future value of the apartment. Since 1999 this company called Honpark Rt has had around 30 contracts.

One private company called the Budapest City Estate joint stock company introduced the reverse mortgage system in Budapest. It was basically a one-person company which had 120 clients. The annuity was set on a case-by-case basis and no systematic relation between the annuity and the value of the unit, the age or sex of the owner was established. We got the data set and were able to do some analysis. The average size of the flat was 48 sq.m., and the total value of the flats in the program 3.7 billion Fts.

In 1998 MRI (under a contract for the government) made a survey to estimate the demand for the reverse mortgage. (MRI, 1999) The sample was taken from the population older than 65 living in Budapest and in 22 provincial cities. We considered those persons eligible who live alone or with their spouse in a house or flat owned by them. From a sample of 3,500 we found 713 matching the eligibility criteria (20 % of the population). 9 % of the respondents wanted to join the program, 12 % was interested, and 76 % rejected the idea. On the basis of this survey we made a detailed analysis of the motivation, expectation, etc. of the households surveyed.

According to the housing survey of 2003, 25 % of the households are potentially eligible for a reverse mortgage program[14], but only very few of them considered the possibility of the reverse mortgage. (See Table 6)

[14] Own their home, the head of household is older than 65 years and household size is 2 or less.

Table 6 Do you consider probable to have an annuity against the equity of your home?

	%
No	91,9
Maybe in the future	3,3
Maybe, if I have to	2,1
Do not know	2,8
Total	100
(N)	1768

The explanation for the low interest in reverse mortgage lies in the importance of the family relations in social life, especially in housing, substituting for the lack of the safety net. In the Budapest Rental Panel Survey we raised the question for whom the respondent bought or wanted to buy the apartment. In 1991 30 % of the respondents answered that they had bought the flat for their relatives (children or grandchildren), in 1995 26 %. Figure 9 shows that with age higher than 65 years almost 50 % of the respondents think of their relatives to inherit the apartment.

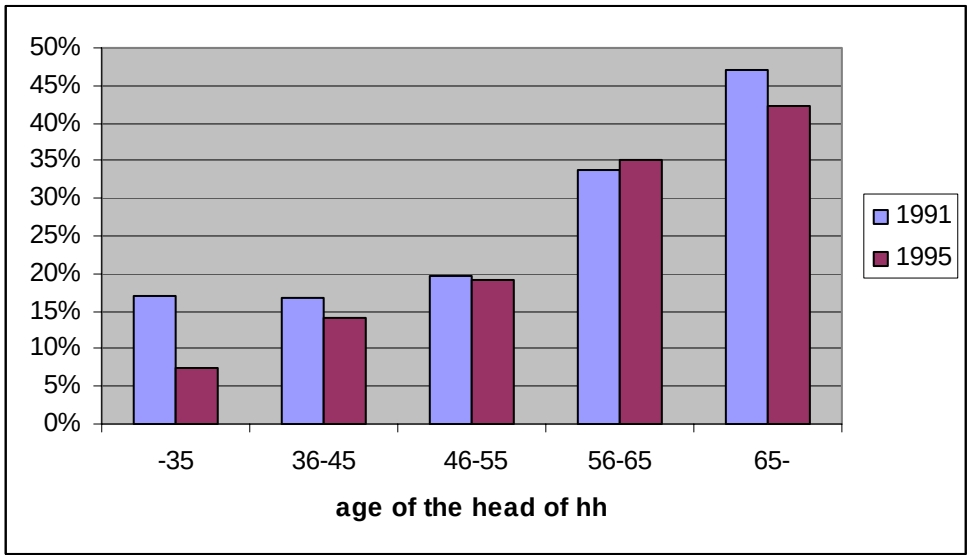

Figure 9 The share of respondents who bought their apartment for their relatives (children or grandchildren)

5.2 Downward filtration – „social sub-urbanization"

A more typical solution to the problem of „cash-poor and asset rich" is the downward mobility, in terms of moving to a smaller and less valuable unit. Especially households with arrears are forced to move to a less expensive unit, which makes paying off the debt possible. The social research showed that in most of the cases households move to a region with lower house prices, which, nevertheless, means fewer job opportunities and more dependence on social benefit. This process is called in the literature "social sub-urbanization", because the typical moves are from housing estates to poor villages.

According to the Housing Survey of 2003, 20 % of the households moved their home in the last 7-8 years. The respondents evaluated their moves according to four dimensions: size of the housing unit, quality of the housing unit, environment of the apartment and the value of the housing unit. Two important conclusions can be drawn from the data: 1. the downward mobility represents 12-26 % of the transactions, 2. the downward mobility depends on household income and age.

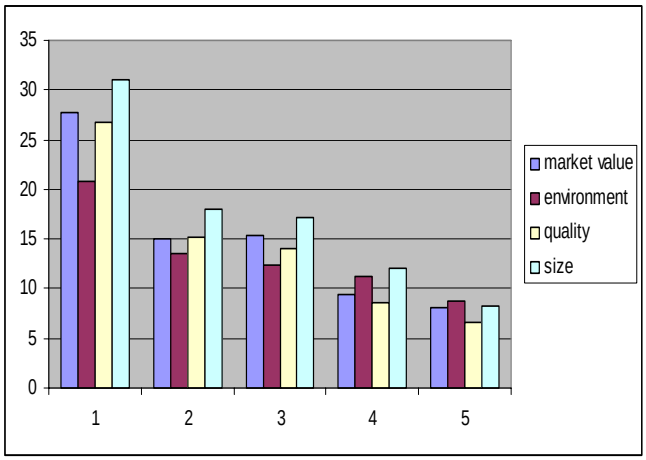

Figure 10 Different types of downward mobility according to income quintiles (1 lowest, 5 highest)

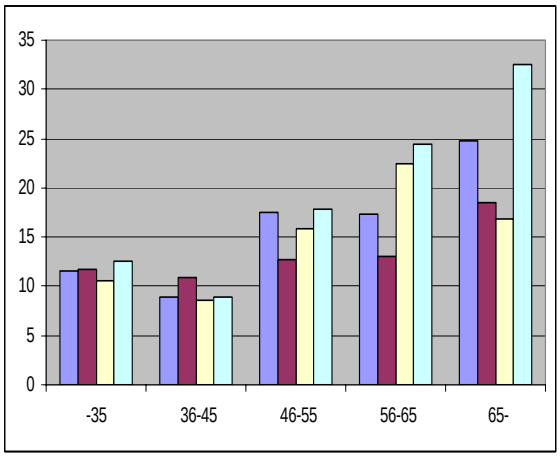

Figure 11 Different types of downward mobility according to age of the head of households

Almost 50 % of the moves of the households belonging to the lowest income group is a downward move according to one or more dimensions, and the same is true for the households having a household head older than 65. The nature of downward moves is however different: the low-income group is forced to use the equity to survive, while the "old" age group moves – mainly – because of the "life cycle".

6 Conclusion

The study concluded that there are common features in the transition process of the housing sector. Thus the conclusions based on the Hungarian cases could provide useful starting points for hypotheses for the other accession and transition countries.

The security elements of the home ownership play an important role in the real estate transactions. We showed that the real estate prices followed a cyclical trend, decreased at the beginning of the 90s and increased at the turn of 2000. However, the distance between the lowest quintile and the highest quintile has increased in the last ten years. Meanwhile, inequalities in terms of the distribution of the housing equity increased among the different social groups measured by income, education, and occupation variables.

More and more households use homeownership as “insurance” against the failure of the pension system. The analysis of the housing mobility gave evidence that low-income households use their property to bridge the “bad years”, however, the reverse mortgage scheme has only limited popularity as the family ties are still very strong.

Regional differences in house prices have accelerated the regional and territorial segregation of the low-income groups. The wider the gap is, the greater the motivation for the poor to move down on the housing market and to relieve and use their equity for consumption. Moving to regions of economic recession, their chances of integration become slim.

7 Methodological Appendix: the data sets

Budapest Rental Panel Survey 1992-1995: The samples were not connected to each other (thus they are not panel, but repeated consecutive surveys). The sample size in 1992 was 987, and in 1995 1,003.

Housing Survey 1999: The survey was carried out with the inclusion of 10,754 units and the persons living in the flats (28,073).

The selection criteria were the following: the household number should be representative on the county level and according to the settlement type. They were chosen on the basis of the 1996 Micro census. The data set is representative for the whole country.

In order to reflect the lack of information concerning the housing sector that occurred due to the transitional processes (s/a transformation of tenure, drawback of the state from housing, diminishing of housing subsidies), the updated Census data could no longer provide for sufficient data e.g. for decisions made related to housing, access to housing, and the state of the housing stock in Hungary. Therefore, a comprehensive variable set was formed that explored the following topics:

- quality of stock
- tenure structure
- access of housing
- renovations (or enlargement) carried out in the unit
- households' investments into housing
- intention to move (housing history)
- affordability of housing and housing expenditure
- value of housing
- household characteristics

Housing Survey 2003: The 2003 survey explored 12,900 units, but the long questionnaires were only filled out if there were some "peculiar" events (renovation, moving), or the inhabitants indicated their intention to move in no later than 5 years. As a result, 8,000 full cases were included. The data set is representative for the whole country.

The addresses were taken from the 2001 Census, the observation units were the flats. The sample was structured according to regions, settlement size and settlement development level. The observation units were chosen according to the derived housing characteristics gained from the yearly updated data of the 2001 Census. Since new constructions could not be included, new housing from 1998-2001 was over represented.

The questions explored were in accordance with the topics of the previous survey; in addition, questions related to intention to move to supported rental units were included.

Hungarian Household Panel Survey 1992-1997: The first wave was conducted in 1992, and five further waves have been conducted. The reference population is Hungarian non-institutional households, of which about 2,000- 2,500 have been sampled in each wave. The main variables covered are: social status, wealth, income, economic and financial strategies, employment histories and housing circumstances. The surveys have been undertaken by the Hungarian Social Research Informatics Centre (TARKI) and the Sociology Department of the Budapest University of Economics.

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